



Agriculture and  
Agri-Food Canada

Agriculture et  
Agroalimentaire Canada

# **AGRICULTURE AND AGRI-FOOD CANADA**

**Financial Statements (Unaudited)  
For the year ended March 31, 2012**

## **Statement of Management Responsibility Including Internal Control over Financial Reporting**

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2012, and all information contained in these statements rests with the management of the Department of Agriculture and Agri-Food Canada. These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of Agriculture and Agri-Food Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Agriculture and Agri-Food Canada's Departmental Performance Report, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the Financial Administration Act and other applicable legislation, regulations, authorities and policies.

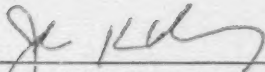
Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Agriculture and Agri-Food Canada and through conducting an annual assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

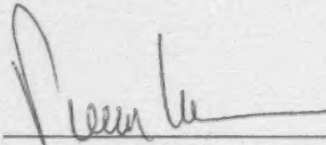
A risk-based assessment of the system of ICFR for the year ended March 31, 2012 was completed in accordance with the Treasury Board Policy on Internal Control and the results and action plans are summarized in the annex.

The effectiveness and adequacy of Agriculture and Agri-Food Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Agriculture and Agri-Food Canada's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The financial statements of the Department have not been audited.



John Knubley, Deputy Minister  
Ottawa, Canada  
August 21, 2012



Pierre Corriveau, Chief Financial Officer

# AGRICULTURE AND AGRI-FOOD CANADA

Statement of Financial Position (Unaudited)

As at March 31

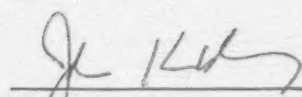
(in thousands of dollars)

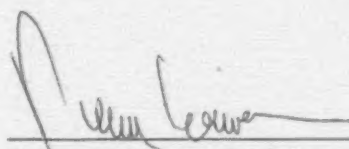
	<u>2012</u>	<u>2011</u>
		Restated (Note 17)
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 4)	\$ 1,385,016	\$ 1,571,919
Vacation pay and compensatory leave	30,395	37,740
Deferred revenue (Note 5)	13,102	11,601
Employee future benefits (Note 6)	81,946	109,739
Other liabilities (Note 7)	<u>115,590</u>	<u>294,801</u>
<b>Total liabilities</b>	<b>1,626,049</b>	<b>2,025,800</b>
<b>Financial assets</b>		
Due from Consolidated Revenue Fund	1,310,851	1,703,582
Accounts receivable and advances (Note 8)	83,070	70,488
Loans receivable (Note 9)	<u>341,776</u>	<u>316,577</u>
<b>Total gross financial assets</b>	<b>1,735,697</b>	<b>2,090,647</b>
<b>Financial assets held on behalf of Government</b>		
Accounts receivable and advances (Note 8)	(781)	(912)
Loans receivable (Note 9)	<u>(341,776)</u>	<u>(316,577)</u>
<b>Total financial assets held on behalf of Government</b>	<b>(342,557)</b>	<b>(317,489)</b>
<b>Total net financial assets</b>	<b><u>1,393,140</u></b>	<b><u>1,773,158</u></b>
<b>Departmental net debt</b>	<b><u>232,909</u></b>	<b><u>252,642</u></b>
<b>Non-financial assets</b>		
Prepaid expenses and inventory	6,069	4,983
Tangible capital assets (Note 10)	<u>380,399</u>	<u>398,048</u>
<b>Total non-financial assets</b>	<b>386,468</b>	<b>403,031</b>
<b>Departmental net financial position (Note 11)</b>	<b><u>\$ 153,559</u></b>	<b><u>\$ 150,389</u></b>

Contractual Obligations (Note 12)

Contingencies (Note 13)

The accompanying notes form an integral part of these financial statements.

  
John Knubley, Deputy Minister  
Ottawa, Canada  
August 21, 2012

  
Pierre Corriveau, Chief Financial Officer



# AGRICULTURE AND AGRI-FOOD CANADA

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2012 Planned Results	2012	2011 Restated (Note 17)
<b>EXPENSES</b>			
Business Risk Management	\$ 1,869,442	\$ 1,359,221	\$ 1,590,813
Internal Services	410,345	446,910	412,669
Science, Innovation and Adoption	287,651	263,775	329,010
Trade and Market Development	138,169	96,751	94,065
On-Farm Action	177,531	121,388	105,205
Food Safety and Biosecurity Risk Management Systems	99,957	85,706	91,873
Environmental Knowledge, Technology, Information and Measurement	63,486	88,248	87,201
Agri-Business Development	87,168	113,295	103,995
Rural and Co-operatives Development	24,857	20,560	20,312
Canadian Pari-Mutuel Agency	11,211	10,288	12,639
Regulatory Efficiency Facilitation	35,678	12,785	11,935
Farm Products Council of Canada	2,771	2,927	2,851
Expenses Incurred on behalf of Government	<u>2</u>	<u>3</u>	<u>(44)</u>
	3,208,268	2,621,857	2,862,524
<b>REVENUES</b>			
Crop Re-insurance Fund	77,504	34,558	37,125
Sale of goods and services	52,856	64,347	54,083
Interest	2,307	11,719	9,722
Joint project and cost sharing agreements	3,291	4,303	4,401
Gain on disposal of assets	3,839	238	286
Revenues earned on behalf of Government	<u>(110,824)</u>	<u>(50,926)</u>	<u>(51,504)</u>
	28,973	64,239	54,113
<b>Net cost from continuing operations</b>	3,179,295	2,557,618	2,808,411
<b>Transferred operations (Note 15)</b>			
Expenses	<u>9,187</u>	<u>11,595</u>	<u>23,519</u>
<b>Net cost of transferred operations</b>	9,187	11,595	23,519
<b>Net cost of operations before government funding and transfers</b>	3,188,482	2,569,213	2,831,930
<b>Government funding and transfers</b>			
<b>Net cash provided by Government</b>		2,896,639	3,188,633
Change in due from Consolidated Revenue Fund		(392,731)	(547,324)

## AGRICULTURE AND AGRI-FOOD CANADA

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

Services provided without charge by other government departments (Note 14)	71,456	71,335
Transfer of assets from other government departments	25	10,558
Transfer of assets and liabilities to other government departments (Note 15)	<u>(3,006)</u>	<u>-</u>
<b>Net cost of operations after government funding and transfers</b>	<b>(3,170)</b>	<b>108,728</b>
 <b>Departmental net financial position - Beginning of year</b>	 <b>150,389</b>	 <b>259,117</b>
 <b>DEPARTMENTAL NET FINANCIAL POSITION - END OF YEAR</b>	 <b><u>\$ 153,559</u></b>	 <b><u>\$ 150,389</u></b>

Segmented information (Note 16)

The accompanying notes form an integral part of these financial statements.

## AGRICULTURE AND AGRI-FOOD CANADA

Statement of Change in Departmental Net Debt (Unaudited)  
For the Year Ended March 31  
(in thousands of dollars)

	<u>2012</u>	<u>2011</u>
		Restated (Note 17)
Net cost of operations after government funding and transfers	\$ (3,170)	\$ 108,728
<b>Change due to tangible capital assets (Note 10)</b>		
Acquisition of tangible capital assets	34,623	51,045
Amortization of tangible capital assets	(45,648)	(44,513)
Proceeds from disposal of tangible capital assets	(262)	(318)
Net (loss) or gain on disposal of tangible capital assets including adjustments	(877)	108
Non-cash changes of tangible capital assets	(48)	340
Transfer from other government departments	25	10,558
Transfer to other government departments	(5,462)	-
<b>Total change due to tangible capital assets</b>	<u>(17,649)</u>	<u>17,220</u>
Change due to prepaid expenses and inventory	1,086	594
Net increase (decrease) in departmental net debt	(19,733)	126,542
Departmental net debt - Beginning of year	252,642	126,100
Departmental net debt - End of year	<u>\$ 232,909</u>	<u>\$ 252,642</u>

The accompanying notes form an integral part of these financial statements.

# AGRICULTURE AND AGRI-FOOD CANADA

Statement of Cash Flows (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	<u>2012</u>	<u>2011</u>
		Restated (Note 17)
<b>OPERATING ACTIVITIES</b>		
Net cost of operations before government funding and transfers	\$ 2,569,213	\$ 2,831,930
Non-cash items:		
Amortization of tangible capital assets	(45,648)	(44,513)
Gain (Loss) on disposal of tangible capital assets	(877)	108
Non-cash changes of tangible capital assets	(48)	340
Services provided without charge by other government departments (Note 14)	(71,456)	(71,335)
<b>Variations in Statement of Financial Position:</b>		
Increase (decrease) in accounts receivable and advances	12,713	3,315
Increase (decrease) in prepaid expenses and inventory	1,086	594
Decrease (increase) in accounts payable and accrued liabilities	186,903	119,169
Decrease (increase) in vacation pay and compensatory leave	7,345	(4,399)
Decrease (increase) in deferred revenue	(1,501)	600
Decrease (increase) in employee future benefits	27,793	(4,882)
Decrease (increase) in other liabilities	179,211	306,979
Transfer of liabilities to other government departments (Note 15)	(2,456)	-
<b>CASH USED IN OPERATING ACTIVITIES</b>	<u>2,862,278</u>	<u>3,137,906</u>
<b>CAPITAL INVESTING ACTIVITIES</b>		
Acquisition of tangible capital assets	34,623	51,045
Proceeds from disposal of tangible capital assets	(262)	(318)
<b>CASH USED IN CAPITAL INVESTING ACTIVITIES</b>	<u>34,361</u>	<u>50,727</u>
<b>NET CASH PROVIDED BY GOVERNMENT OF CANADA</b>	<u>\$ 2,896,639</u>	<u>\$ 3,188,633</u>

The accompanying notes form an integral part of these financial statements.



## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

*(tabular amounts in thousands of dollars)*

### **Note 1 - Authority and objectives**

The Department of Agriculture and Agri-Food (AAFC) was originally established in 1868. Under the *Department of Agriculture and Agri-Food Act*, the Minister is responsible for agriculture, products derived from agriculture and research related to agriculture and products derived from agriculture including the operation of experimental farm stations, unless they have been assigned by law to another department, board or agency.

The Department provides information, research and technology, and policies and programs to achieve security of the food system, health of the environment and innovation for growth.

#### **Business Risk Management**

AAFC has a comprehensive business risk management program to better equip producers with the tools and capacity to manage business risks. This program provides coverage for small income declines, margin-based support for larger income losses, a disaster relief framework for rapid assistance to producers, and production insurance to protect farmers against production losses due to uncontrollable natural hazards. In addition, producers can receive assistance through the provision of financial guarantees which facilitates the marketing of producers' products when market conditions and prices may be more favourable.

#### **Internal Services**

Internal Services are groups of related activities and resources that are administered to support all Strategic Outcomes and the needs of programs and other corporate obligations of the Department. Only those activities and resources that apply across the Department, and not those provided specifically to a program, are included. Internal Services consists of the following group of activities:

- Management and Oversight, which include: Strategic Policy and Government Relations; Program/Service Management; Planning, Performance and Reporting; and Internal Audit and Evaluation); Communications Services; and Legal Services;
- Resource Management Services, which include: Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; and Travel and Other Administrative Services; and
- Asset Management Services, which include: Real Property Services; Materiel Services; and Acquisition Services.

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### **Science, Innovation and Adoption**

AAFC contributes to the competitiveness of the agriculture, agri-food and agri-based products sector by supporting innovation designed to improve profitability in new and existing products, services, processes and markets.

Coordinated and informed decision-making is supported with strategic foresight, research, and information sharing contributing to integrated planning engaging with industry, government and academia. Collaborative action is promoted to accelerate the flow of science and technology along the innovation continuum in support of industry defined strategies for future success. Farmers, agri-entrepreneurs and agri-based small and medium-sized enterprises are supported in their efforts to adopt new technologies and commercialize new products and services. Pathfinding and transformational research, help to define future opportunities and prepare the sector for emerging opportunities and challenges.

### **Trade and Market Development**

AAFC acts as Canada's agricultural trade advocate, working to break down trade barriers at home and abroad and expand opportunities for the agriculture, agri-food and agri-based products sector.

AAFC assists the sector in identifying new domestic and global opportunities, markets and ways to enhance productivity, competitiveness and prosperity. AAFC also works to distinguish Canadian products under *Canada Brand International* and the *Domestic Branding Strategy* to expand and deepen the sector's strengths in the marketplace.

### **On-Farm Action**

AAFC supports farmers through direct on-farm programming that identifies environmental risks and opportunities and promotes the continuous growth of the stewardship ethic within the agriculture and agri-food sector.

AAFC supports farmers through agri-environmental risk assessment and planning; providing expertise, information and incentives to increase the adoption of sustainable agriculture practices at the farm and landscape levels; investigating and developing new approaches that encourage and support the adoption of sustainable agriculture practices; and increasing the recognition of the value of sustainable agriculture practices.

This Program supports environmental stewardship and helps reduce the sector's overall impact on the environment. It contributes to a cleaner environment and healthier living conditions for Canadians, and a more profitable agriculture sector.

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

*(tabular amounts in thousands of dollars)*

### **Food Safety and Biosecurity Risk Management Systems**

AAFC supports producers and organizations in the development and implementation of food safety, biosecurity and traceability risk management systems to prevent and control risks to the animal and plant resource base thus strengthening the sector against widespread diseases and losses in domestic and foreign markets.

The risk management systems are national, government-recognized on-farm and/or post-farm Hazard Analysis of Critical Control Points (HACCP) or HACCP-based food safety systems, National Biosecurity Systems and a National Agriculture and Food Traceability System. These systems also support management activities to limit the spread of animal and plant diseases, thereby reducing economic, environmental and social impacts of a potential crisis. A National Animal and Plant Biosecurity Strategy provides overall policy direction ensuring efforts are targeted at the highest possible biosecurity risks.

Eligible recipients include national or regional non-profit organizations, producers and industry stakeholders.

### **Environmental Knowledge, Technology, Information and Measurement**

AAFC is focused on supporting the sector through initiatives that enable it to use a more systematic management approach to making decisions with respect to environmental risks and help identify suitable corrective actions. The department is conducting basic and applied research to improve scientific understanding of agriculture's interactions with the environment on the key environmental challenges facing Canada and its regions; developing sustainable agricultural practices and validating environmental and economic performance at the farm and landscape levels; and developing, enhancing and using agri-environmental indicators, greenhouse gas accounting systems and economic indicators to assess the sector's environmental and economic sustainability. This program provides the platform for innovation and discovery of technologies and strategies to improve its agri-environmental performance of the sector.

### **Agri-Business Development**

AAFC builds awareness of the benefits and encourages the use of sound business management practices, while also enabling businesses in the sector to be profitable and invest where needed to manage the natural resource base sustainably and to market and produce safe food and other products.

The Agri-Business Development program funds provincial and territorial activities related to business management practices and skills that: strengthen the capacity of businesses in the sector to assess the financial implications of business improvements, including the impact of environmental plans, food safety systems and innovation projects on their business profitability; manage transformation, respond to change and adopt innovation in business operations; help agri-business owners understand their financial situation, implement effective action and business management plans/practices and provide for enhanced participation by young or new entrants, First Nations clients, and clients in specific sub-sectors in transition.



## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### **Rural and Co-operatives Development**

Rural and Co-operatives Development supports community development through two distinct components: first it leads an integrated, government-wide approach, called the Canada's Rural Partnership, through which the government aims to coordinate its policies towards the goal of economic and social development and renewal of rural Canada. It develops partnerships with federal departments and provincial and rural stakeholders and offers tools to enable rural communities to use their innovative capacity to capture the value of local amenities, and to achieve greater local or regional economic competitiveness.

Second, it facilitates the development of co-operatives as an effective self-help tool for Canadians and communities to address their needs and capture economic opportunities. It provides advice across government on policies and programs affecting co-operatives and builds partnerships within the federal government and with the co-operative sector, the provinces and other key stakeholders to support the development of co-operatives.

### **Canadian Pari-Mutuel Agency**

Section 204 of the *Criminal Code of Canada* designates the Minister of Agriculture and Agri-Food as the individual responsible for the policy and regulatory functions pertaining to pari-mutuel wagering on horse races.

The Canadian Pari-Mutuel Agency (CPMA) is a special operating agency within AAFC that regulates and supervises pari-mutuel betting on horse racing at racetracks across Canada, with the objective of ensuring that pari-mutuel betting is conducted in a way that is fair to the betting public. Costs associated with the activities of the CPMA are recovered through a levy on every dollar bet on horse races in Canada. The levy is currently set at eight-tenths of a cent of every dollar bet. CPMA's strategic plans are focused on regulating and supervising pari-mutuel wagering on horse races in the most modern, effective and transparent manner.

### **Regulatory Efficiency Facilitation**

AAFC is undertaking initiatives to ensure that the regulatory environment promotes sector innovation, investment and competitiveness. The Department recognizes that with the rapid pace of technological advancement and emerging gaps between international and domestic regulatory policies, Canada's regulatory environment will need to increase capacities and accelerate modernization to be responsive. The initiatives will involve working with stakeholders along the value chain to enhance their ability to fulfill regulatory requirements, and collaborating with federal partners and industry to find ways of streamlining the regulatory burden through targeted actions on sector priorities, while at the same time maintaining Canada's strong regulatory system with respect to health and safety. Improving the timeliness and transparency of science-based regulatory decision-making will also contribute to improved public and stakeholder confidence.



## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

*(tabular amounts in thousands of dollars)*

### **Farm Products Council of Canada**

Established through the *Farm Products Agencies Act*, the Farm Products Council of Canada (FPCC) is a unique public interest oversight body that reports to Parliament through the Minister of Agriculture and Agri-Food. The Act provides for the creation of national marketing agencies and promotion research agencies. The FPCC supervises these agencies by ensuring that the supply management system for poultry and eggs and the check-off system for beef cattle work in the balanced interest of all stakeholders, from producers to consumers. The FPCC is also an active proponent of portfolio management by providing advice to the Minister and maintaining relationships with provincial governments.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 2 - Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

- (a) **Parliamentary authorities** – The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2011-12 Report on Plans and Priorities. The future-oriented financial statements for 2011-2012 have been restated to reflect the revenue net of non-responsible amounts. This restatement resulted in a \$110,824 increase in net cost of operations before government and transfers. In addition, the future – oriented financial statements have been reclassified to conform to the current year presentation.
- (b) **Consolidation** – These consolidated financial statements include the accounts of the sub-entities that the deputy head (DH) is accountable for. The accounts of these sub-entities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The accounting entity comprises of the Department of Agriculture and Agri-Food, the Farm Products Council of Canada, Canada Agricultural Review Tribunal and the Canadian Pari-Mutuel Agency. The financial statements do not include the accounts of the Canadian Food Inspection Agency, the Canadian Wheat Board, the Canadian Grain Commission, the Canadian Dairy Commission and Farm Credit Canada because they are not under the control of Agriculture and Agri-Food Canada and therefore, are not consolidated.
- (c) **Net Cash Provided by Government** – The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.
- (d) **Amounts due from or to the Consolidated Revenue Fund** are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(e) Revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- Funds that have been received ~~are~~ recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-responsible are not available to discharge the Department's liabilities. While the DH is expected to maintain accounting control, he or she has no authority regarding the disposition of non-responsible revenues. As a result, non-responsible revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues

(f) Expenses – Expenses are recorded on the accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

- Services provided without charge by other government departments for the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

(g) Employee future benefits:

- (i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- (ii) Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(h) Accounts and loans receivable are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

(i) Contingencies – Contingencies are potential recoveries or liabilities which may become actual recoveries or liabilities when one or more future events occur or fail to occur.

- (i) Contingent liabilities – To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.
- (ii) Contingent recoveries – Contingent gains are not accrued in financial statements. However, a contingent gain which is considered likely to be realized is disclosed in the notes to the financial statements.



## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

- (j) Loan and price guarantees – An allowance on loans or price guarantees is recorded in the accounts when it is likely that a payment will be made to honor a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined based on historical loss experience and economic conditions adversely affecting the capacity of borrowers to reimburse the loan. The allowance is reviewed on a regular basis and the variations are recorded in the statement of operations.
- (k) Environmental liabilities – Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.
- (l) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

ASSET CLASS	AMORTIZATION PERIOD
Buildings	20 to 30 years
Works and infrastructure	15 to 40 years
Machinery and equipment	5 to 20 years
Vehicles	7 to 25 years
Computer Hardware and Software	3 to 5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

*(tabular amounts in thousands of dollars)*

- (n) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, allowance for loan guarantees, the useful life of tangible capital assets, the liability for employee future benefits and environmental liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 3 - Parliamentary Authorities

The Department receives most of its funding through annual Parliamentary authorities. Items recognized in the statement of operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used:

	2012	2011
		Restated (Note 17)
<b>Net cost of operations before government funding and transfers</b>	\$ 2,569,213	\$ 2,831,930
<b>Adjustments for items affecting net cost of operations but not affecting authorities:</b>		
Amortization of tangible capital assets	(45,648)	(44,513)
Gain (Loss) on disposal of tangible capital assets	(877)	108
Non cash changes of tangible capital assets	(48)	340
Services provided without charge by other government departments	(71,456)	(71,335)
Increase (decrease) in prepaid and inventory	964	594
Increase (decrease) in restricted accounts	(377)	-
Decrease (increase) in vacation pay and compensatory leave	6,771	(4,399)
Decrease (increase) in accrued liabilities	(19,710)	(113,478)
Decrease (increase) in employee future benefits	25,911	(4,882)
Decrease (increase) in allowances for bad debt expenses	2,130	(14,823)
Refund and adjustment of prior years' expenditures	31,361	3,606
Responsible revenue	12,190	12,891
Other	(3,364)	(7,445)
	(62,153)	(243,336)
<b>Adjustments for items not affecting net cost of operations but affecting authorities:</b>		
<b>Acquisitions of tangible capital assets</b>	34,623	51,045
Proceeds from disposal of tangible capital assets	(262)	(318)
Increase (decrease) in loan receivables	16,111	35,450
Increase in inventory	122	-
	50,594	86,177
<b>Current year authorities used</b>	\$ 2,557,654	\$ 2,674,771

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(b) Authorities provided and used:

	<u>2012</u>	<u>2011</u>
<b>AUTHORITIES PROVIDED:</b>		
Vote 1 - Operating expenditures	\$ 756,690	\$ 778,797
Vote 5 - Capital expenditures	34,151	57,860
Vote 10 - Transfer payments	459,143	577,776
Vote 20 - Canadian Pari-Mutuel Agency	-	345
Statutory amounts	<u>1,470,876</u>	<u>1,503,544</u>
	2,720,860	2,918,322
<b>Less:</b>		
Authorities available for future years	6,953	4,941
Lapsed authorities	<u>156,253</u>	<u>238,610</u>
	163,206	243,551
<b>CURRENT YEAR AUTHORITIES USED</b>	<u>\$ 2,557,654</u>	<u>\$ 2,674,771</u>



## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 4 - Accounts payable and accrued liabilities

The following table presents details of the Department's accounts payable and accrued liabilities:

	<u>2012</u>	<u>2011</u>
Accounts payable to other government departments and agencies	\$ 19,930	\$ 28,616
Accounts payable to external parties	<u>1,185,525</u> 1,205,455	<u>1,383,452</u> 1,412,068
Accrued liabilities	179,561	159,851
<b>Total accounts payable and accrued liabilities</b>	<u>\$ 1,385,016</u>	<u>\$ 1,571,919</u>

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, the Department has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$53,000,000 as part of accrued liabilities to reflect the estimated workforce adjustment costs.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 5 - Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming mainly from joint collaborative agreements and cost-sharing agreements which are restricted to fund the expenditures related to specific research projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	<u>2012</u>	<u>2011</u>
Opening balance	\$ 11,601	\$ 12,201
Amounts received	5,869	3,802
Revenue recognized	(4,368)	(4,402)
Closing balance	<u>\$ 13,102</u>	<u>\$ 11,601</u>

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 6 - Employee future benefits

#### (a) Pension benefits

The Department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The 2011-2012 expense amounts to \$58,475,607 (\$57,877,763 in 2011), which represents approximately 1.8 times (1.9 times in 2010-2011) the contributions by employees. The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

#### (b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes were given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

	2012	2011
Accrued benefit obligation - Beginning of year	\$ 109,739	\$ 104,857
Transferred to other government department, effective November 15, 2011 (Note 15)	(1,882)	-
Subtotal	107,857	104,857
Expense for the year	9,886	15,932
Benefits paid during the year	(35,797)	(11,050)
Accrued benefit obligation - End of year	\$ 81,946	\$ 109,739

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 7 - Other liabilities

The Department holds funds in trust from the AgrilInvest program, the AgriStability program as well as security deposits.

AgrilInvest is a producer savings account program that replaces the coverage for smaller income declines that was provided by previous programs. Program payments are cost-shared with the province or territory which producers can withdraw under specific terms and conditions. Since 2010, producers can now make their AgrilInvest deposits at a participating financial institution of their choice. As such, existing funds held by the federal government are being transferred to the producer's AgrilInvest account held at the financial institutions.

The AgriStability program helps producers protect their farming operations against larger drops in income. Program payments are shared 60% federally and 40% provincially/territorially. The provincial/territorial share of the contributions and interest paid on the contributions are held in a specified purpose account until the producers draw down their funds.

AgrilInvest, AgriStability and security deposit account activity during the year was as follows:

	<u>2012</u>	<u>2011</u>
Opening balance	\$ 294,801	\$ 601,780
Deposits	423,093	583,251
Withdrawals	(602,304)	(890,230)
Ending balance	<u>\$ 115,590</u>	<u>\$ 294,801</u>



## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 8 - Accounts receivable and advances

The following table presents details of the Department's accounts receivable balances:

	2012	2011
		Restated (Note 17)
Receivables from other government departments and agencies	\$ 21,200	\$ 13,509
Receivables from external parties	93,228	95,205
Employee advances	71	58
Subtotal	114,499	108,772
Allowance for doubtful accounts on receivables from external parties	(31,429)	(38,284)
<b>Gross accounts receivable</b>	<b>83,070</b>	<b>70,488</b>
Accounts receivable held on behalf of Government	818	1,027
Allowance for doubtful accounts held on behalf of Government	(37)	(115)
Net Accounts receivable held on behalf of Government	781	912
<b>Net accounts receivable</b>	<b>\$ 82,289</b>	<b>\$ 69,576</b>

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 9- Loans receivable

The following table presents details of the Department's loans receivable and program advances balances:

	<u>2012</u>	<u>2011</u>
		Restated (Note 17)
Transfer payments recoverable	\$ 51,561	\$ 35,450
Loans resulting from loan guarantee programs	<u>414,228</u>	<u>399,329</u>
Subtotal	465,789	434,779
Less: Allowance for uncollectibility	<u>(124,013)</u>	<u>(118,202)</u>
Gross loans receivable	<u>341,776</u>	<u>316,577</u>
Loans receivable held on behalf of Government	<u>341,776</u>	<u>316,577</u>
Net loans receivable	\$ -	\$ -

#### (a) Transfer payments recoverable

Transfer payments recoverable relate to contributions made to outside parties which are repayable based on conditions specified in the contribution agreement that have come into being. An allowance of \$1,685,000 (\$0 in 2011) has been recorded.

#### (b) Loans resulting from loan guarantee programs

The Department's loan receivables are the result of the exercise of loan guarantees by the initial lender under the terms of various loan guarantee programs. These loans are in default with the initial lender and due immediately to the Department. Interest rates on these loans vary according to the initial terms of the loans and applicable government regulations. An allowance of \$122,328,000 (\$118,202,000 in 2011) relating to these loans has been recorded.

# **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

## **Note 10 - Tangible capital assets**

CAPITAL ASSET CLASS	OPENING BALANCE	COST			ADJUSTMENTS <sup>(1)</sup>	DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
		ACQUISITIONS					
Land	\$	12,991	\$	53	\$	\$	13,044
Buildings		592,727		43		4,789	614,057
Works and infrastructure		56,924		-	26,076	-	59,226
Machinery and equipment		183,160		7,978	2,302	7,624	182,259
Vehicles		66,010		5,240	(1,255)	2,410	68,667
Leasehold improvements		23,187		-	702	-	23,889
Computer hardware and software		86,421		1,251	(44,544)	2,272	40,856
Assets under construction		30,640		20,058	(29,813)	290	20,595
	\$	1,052,060	\$	34,623	(46,705)	17,385	1,022,593

# **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

CAPITAL ASSET CLASS	OPENING BALANCE	ACCUMULATED AMORTIZATION			DISPOSALS AND WRITE-OFFS	CLOSING BALANCE
		AMORTIZATION	ADJUSTMENTS <sup>(1)</sup>			
Land	\$ -	\$ -	-	\$ -	-	-
Buildings	398,289	18,044	(258)	4,259	411,816	411,816
Works and infrastructure	23,066	1,576	-	-	24,642	24,642
Machinery and equipment	122,475	9,827	(1,513)	7,397	123,392	123,392
Vehicles	40,913	4,321	(403)	2,329	42,502	42,502
Leasehold improvements	13,107	2,295	-	-	15,402	15,402
Computer hardware and software	56,162	9,585	(39,046)	2,261	24,440	24,440
Assets under construction	-	-	-	-	-	-
	\$ 654,012	\$ 45,648	\$ (41,220)	\$ 16,246	\$ 642,194	\$ 642,194



## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### NET BOOK VALUE

CAPITAL ASSET CLASS	2012	2011
Land	\$ 13,044	\$ 12,991
Buildings	202,241	194,438
Works and infrastructure	34,584	33,858
Machinery and equipment	58,867	60,685
Vehicles	26,165	25,097
Leasehold improvements	8,487	10,080
Computer hardware and software	16,416	30,259
Assets under construction	20,595	30,640
	<u>\$ 380,399</u>	<u>\$ 398,048</u>

- (1) Adjustments include assets under construction of \$29,813,000 that were transferred to the other categories upon completion of the assets.

Effective November 15, 2011, the Department transferred computer hardware and software with a net book value of \$5,462,000 to Shared Services Canada. This transfer is included in the adjustment columns (refer to Note 15 for further detail on the transfer).

During the fiscal year 2012, the Department received machinery and equipment from other government department with a net book value of \$25,371.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 11 – Departmental net financial position

A portion of the Department's net financial position is used for a specific purpose. Related revenues and expenses are included in the Statement of Operations and the Departmental Net Financial Position. The Department operates two programs which under legislation require that the revenues be earmarked to offset the expenses of the program.

The Crop Re-insurance Fund was established pursuant to the *Farm Income Protection Act*. This program provides insurance to participating provinces for costs they incur in operating crop insurance programs. The fund records receipts and disbursements under the terms of reinsurance agreements. When there are insufficient revenues to meet payments, the Minister of Finance may authorize an advance of additional funds to cover these obligations.

The Agricultural Commodities Stabilization Accounts were established pursuant to the *Agricultural Stabilization Act*, under which the commodity accounts formerly operated, and has since been repealed and replaced by the *Farm Income Protection Act* effective April 1, 1991. The purpose of these accounts was to reduce income loss to producers from market risks through stabilizing prices. Premiums were shared equally by the Government of Canada, the governments of participating provinces and participating producers. Current activities are limited to collection of accounts receivable.

The balances of the accounts at the end of the year are included in the Statement of Change in Departmental Net Debt. Activities in these accounts are as follows:

	2012	2011
		Restated (Note 17)
<b>Crop Re-insurance Fund - Restricted</b>		
Balance - Beginning of year	\$ 89,252	\$ 52,127
Revenues	34,558	37,125
Expenses	(377)	-
Balance-end of year	123,433	89,252
 <b>Agricultural Commodities Stabilization Accounts - Restricted</b>	 647	 647
 <b>Unrestricted</b>	 29,479	 60,490
 <b>Departmental net financial position-End of year</b>	 <u>\$ 153,559</u>	 <u>\$ 150,389</u>

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 12 - Contractual Obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payment programs. Significant non revocable contractual obligations that can be reasonably estimated are summarized as follows:

	2013	2014	2015	2016	2017 AND THEREAFTER	TOTAL
TRANSFER PAYMENTS	\$ 22,637	\$ 12,363	\$ -	\$ -	\$ -	\$ 35,000
	\$ 22,637	\$ 12,363	\$ -	\$ -	\$ -	\$ 35,000

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

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*(tabular amounts in thousands of dollars)*

### **Note 13 – Contingencies**

Contingencies arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into five categories as follows:

#### **(a) Contaminated sites**

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is obligated or likely to be obligated to incur such costs. The Department has identified approximately 26 sites (28 sites in 2011) where such action is possible and for which a liability of \$1,193,853 (\$1,461,817 in 2011) has been recorded in accrued liabilities. The Department has estimated additional clean-up costs of \$2,812,934 (\$2,705,676 in 2011) that are not accrued, as these are not considered likely to be incurred at this time. The Department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become likely and are reasonably estimable.

#### **(b) Claims and litigation**

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The Department has also been named in other legal claims against the Government of Canada, related to the agricultural industry, for which amounts and likelihood of liability cannot be determined. The limited disclosure regarding the contingent liabilities for legal claims recognized by the Department is a direct reflection of the sensitivity and status of on-going claims



# AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

## (c) Loan or price guarantees

	AUTHORIZED LIMIT	OUTSTANDING GUARANTEES		ALLOWANCE AS AT MARCH 31	
		2012	2011	2012	2011
Loans according to the Advance Payments Program under the <i>Agricultural Marketing Programs Act</i>	\$ 5,000,000	\$ 1,047,041	\$ 1,196,549	\$ 124,328	\$ 157,521
Loans to farmers under the <i>Canadian Agricultural Loans Act</i>	3,000,000	103,977	86,790	1,040	868
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the <i>Agricultural Marketing Programs Act</i>	No limit	6,861	32,868	-	-
National Biomass Ethanol Program	140,000	24,960	24,960	-	-
		<u>\$ 1,182,839</u>	<u>\$ 1,341,167</u>	<u>\$ 125,368</u>	<u>\$ 158,389</u>

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

The allowance for losses is the amount recorded for estimated losses on outstanding loan guarantees and which is included in accrued liabilities. No allowance has been recorded for the Price Pooling Program of the *Agricultural Marketing Programs Act* and for the National Biomass Ethanol Program as no costs are likely to occur.

Under the Advance Payments Program of *Agricultural Marketing Programs Act*, the Department guarantees the repayment of advances made by producer organizations to farmers in the spring and in the fall, creating a more stable business environment. The maximum cash advance of the program is \$400,000. The loans generally have a repayment term of 18 months.

Under the *Canadian Agricultural Loans Act*, the Department guarantees loans by financial institutions to farmers for improvement and development of farms, and the processing, distribution or marketing of farm products. This program guarantees 95 percent of the value of loans provided to farms and co-operatives by financial institutions. For individual applicants, including corporations, the maximum amount for a *Canadian Agricultural Loans Act* loan is \$500,000. Most loans are repayable within ten years. For loans on land purchases, the repayment period is 15 years.

Under the Price Pooling Program of the *Agricultural Marketing Programs Act*, the Department provides a price guarantee that protects marketing agencies and producers against unanticipated declines in the market price of their products.

The Minister of Agriculture and Agri-Food is authorized to guarantee Line of Credit Agreements entered into by Farm Credit Canada under the National Biomass Ethanol Program.

### **(d) Transfer Payments - Conditionally Repayable Contributions**

Under the Ruminant Slaughter Loan Loss Reserve Program, which ended in 2007, conditionally repayable contributions which are outstanding in 2012 total \$20,020,640 (\$20,020,640 in 2011). The funds contributed and accumulated interest are repayable within 10 years and no later than December 31, 2017, net of the amounts used to cover a portion of the loan defaults.

Under the EcoAgriculture Biofuels Capital Initiative, conditionally repayable contributions which are outstanding in 2012 total \$51,348,420 (\$52,571,730 in 2011). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years and no later than March 31, 2023.

Under the Slaughter Improvement Program, conditionally repayable contributions have been committed for a total amount of \$54,804,243 (\$22,306,053 in 2011). Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years. The final payment is due no later than June 1, 2024.

The amounts that will become repayable cannot be currently estimated. The contributions bear interest rates either at the cost of capital of the lender or at the Government of Canada 90-day bond rate, as per initial agreements with the lender.

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

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*(tabular amounts in thousands of dollars)*

### **(e) Contingent Recoveries**

AgriStability and Canadian Agricultural Income Stabilization (CAIS) programs are federally and provincially/territorially cost shared programs and CAIS Inventory Transition Initiative (CITI) is a federally funded program. When provincial/territorial governments deliver these programs and overpayments occur, the federal government is entitled to recover its share of funding if and when overpayments are recovered. The Department has estimated the contingent recoverable amount as \$12,946,010 (\$10,063,255 in 2011). Contingent recoveries are not recorded in the financial statements.

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 14 - Related Party Transactions

The Department is related as a result of common ownership to all Government departments, agencies, and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

#### (a) Common services provided without charge by other government departments

During the year the Department received services without charge from certain common service organizations, related to the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation coverage. These services provided without charge have been recorded in the Department's Statement of Operations and Departmental Net Financial Position as follows:

	2012	2011
Employer's contribution to the health and dental insurance plans	\$ 41,646	\$ 42,495
Accommodation	26,756	26,016
Legal services	1,745	1,482
Workers' Compensation	1,309	1,342
	<u>\$ 71,456</u>	<u>\$ 71,335</u>

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in the Department's Statement of Operations and Departmental Net Financial Position.



## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### (b) Other transactions with related parties

	2012	2011
Expenses - Other Government departments and agencies	\$ 139,002	\$ 153,828
Revenues - Other Government departments and agencies	\$ 7,527	\$ 85

## AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

### Note 15- Transfers to other government departments

Effective November 15, 2011, the Department transferred responsibility for the Email, Data Centre and Network Services Unit and Support Unit to Shared Services Canada in accordance with Order-in-Council P.C 2011-1297, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, the Department transferred the following assets and liabilities related to the Email, Data Centre and Network Services Unit and Support Unit to Shared Services Canada on November 15, 2011:

Assets:

Tangible capital assets (net book value) (Note 10)	\$ <u>5,462</u>
Total assets transferred	5,462

Liabilities:

Vacation pay and compensatory leave	574
Employee future benefits (Note 6)	<u>1,882</u>
Total liabilities transferred	2,456

Adjustment to the departmental net financial position	\$ <u>3,006</u>
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In addition, the 2011 comparative figures have been reclassified on the Statement of Operations and Departmental Net Financial Position to present the revenues and expenses of the transferred operations.

During the transition period, the Department continued to administer the transferred activities on behalf of Shared Services Canada. The administered expenses amounted to \$9,663 for the year. These expenses are not recorded in these financial statements.

# **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

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(tabular amounts in thousands of dollars)

## **Note 16 - Segmented information:**

Presentation by segment is based on the Department's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

	BRM	IS	SIA	TMD	OFA	RMS	EKTM	ABD	RCD	CPMA	REF	FPCC	2012 TOTAL	2011 TOTAL Res/Ans (Note 17)
<b>* EXPENSES</b>														
Transfer payments	\$ 1,327,041	\$ -	\$ 67,683	\$ 35,389	\$ 71,824	\$ 46,447	\$ 2,082	\$ 106,572	\$ 9,072	\$ -	\$ 0	\$ -	\$ 1,666,110	\$ 1,758,245
Salaries and employee benefits	21,990	254,639	157,375	45,980	35,831	31,889	67,579	4,042	9,406	3,973	7,320	2,216	641,640	616,995
Professional and other services	8,622	57,318	14,576	10,618	3,071	2,347	10,155	2,550	1,411	4,988	3,896	409	119,761	118,584
Allowance for loan guarantees and bad debts	310	(2,133)	(1,514)	-	-	-	(4)	-	-	-	-	-	(9,341)	180,993
Materials and supplies	381	19,320	19,917	1,169	6,774	3,049	4,713	16	195	109	1,007	104	56,748	57,832
Amortization of tangible capital assets	-	42,734	-	-	-	-	-	-	-	493	-	-	43,227	40,832
Accommodation	191	39,656	326	513	917	1,200	152	11	19	529	233	14	43,761	26,821
Travel	584	3,134	3,798	3,073	1,104	665	2,458	104	457	175	254	175	15,981	19,972
Repairs and maintenance	325	16,146	1,736	15	1,509	109	1,107	-	-	11	48	9	21,015	26,084
Electricity and other public services	-	16,096	78	-	358	-	6	-	-	10	27	-	16,575	16,810
Crop Re-insurance Fund	377	-	-	-	-	-	-	-	-	-	-	-	377	-
Expenses incurred on behalf of Government	-	-	-	-	-	-	-	-	-	-	-	-	-	(41)
<b>TOTAL EXPENSES</b>	<b>1,359,221</b>	<b>446,913</b>	<b>263,775</b>	<b>96,751</b>	<b>121,388</b>	<b>85,706</b>	<b>88,248</b>	<b>113,295</b>	<b>20,560</b>	<b>10,288</b>	<b>12,785</b>	<b>2,927</b>	<b>2,621,857</b>	<b>2,852,524</b>
<b>REVENUES</b>														
Crop Re-insurance Fund	34,558	-	-	-	-	-	-	-	-	-	-	-	34,558	37,125
Sale of goods and services	1,874	9,337	22,450	-	19,090	251	96	-	25	11,224	-	-	64,347	54,083
Interest	2,448	9,142	70	7	23	1	10	1	-	13	1	3	11,719	9,722
Joint project and cost sharing agreements	-	4,303	-	-	-	-	-	-	-	-	-	-	4,303	4,401
Gain on disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	286
Revenues earned on behalf of Government	(37,006)	(13,813)	(70)	(7)	(14)	(11)	(10)	(11)	(11)	(11)	(11)	(13)	(50,976)	(51,504)
Total revenues	1,874	9,207	22,450	96,751	102,289	85,455	88,152	113,295	20,555	11,237	-	-	64,239	54,113
<b>NET COST FROM CONTINUING OPERATIONS</b>	<b>\$ 1,327,347</b>	<b>\$ 437,706</b>	<b>\$ 241,325</b>	<b>\$ 96,751</b>	<b>\$ 102,289</b>	<b>\$ 85,455</b>	<b>\$ 88,152</b>	<b>\$ 113,295</b>	<b>\$ 20,555</b>	<b>\$ 9,051</b>	<b>\$ 12,785</b>	<b>\$ 2,927</b>	<b>\$ 2,557,618</b>	<b>\$ 2,808,411</b>

\* BRM - Business Risk Management; IS - Internal Services; SIA - Science, Innovation and Adoption; TMD - Trade and Market Development; OFA - On-Farm Action; RMS - Food Safety and Biosecurity Risk Management Systems; EKTM - Environmental Knowledge, Technology, Information and Measurement; ABD - Agri-Business Development; RCD - Rural and Co-operatives Development; CPMA - Canadian Peri-Mutual Agency; REF - Regulatory Efficiency Facilitation; FPCC - Farm Products Council of Canada.

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

*(tabular amounts in thousands of dollars)*

### **Note 17 – Accounting changes**

During 2011, amendments were made to Treasury Board Accounting Standard 1.2—Departmental and Agency Financial Statements to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to the Department's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

Net debt (calculated as liabilities less financial assets) is now presented in the Statement of Financial Position. Accompanying this change, the Department now presents a Statement of Change in Net Debt and no longer presents a Statement of Equity.

Revenue and related accounts receivable as well as loans receivable are now presented net of non-respendable amounts in the Statement of Operations and Departmental Net Financial Position and Statement of Financial Position. The effect of this change was to increase the net cost of operations after government funding and transfers by \$50,926,000 for 2012 (\$51,504,000 for 2011) and decrease total financial assets by \$342,557,000 for 2012 (\$317,489,000 for 2011).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers." In previous years, the Department recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by \$2,572,383,000 for 2012 (\$2,723,202,000 for 2011).



# AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

	2011 As previously stated	Effect of change	2011 Restated
<b>STATEMENT OF FINANCIAL POSITION:</b>			
Assets held on behalf of Government	-	(317,489)	(317,489)
Departmental financial position	467,878	(317,489)	150,389
<b>Statement of Operations and Departmental Net Financial Position:</b>			
Expenses	2,886,087	(44)	2,886,043
Revenues	105,617	(51,504)	54,113
Government funding and transfers			
Net cash provided by Government	-	3,188,633	3,188,633
Change in due from Consolidated Revenue Fund	-	(547,324)	(547,324)
Services provided without charge by other government departments	-	71,335	71,335
Transfer of tangible capital assets from other government departments	\$ -	\$ 10,558	\$ 10,558

## **AGRICULTURE AND AGRI-FOOD CANADA**

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

*(tabular amounts in thousands of dollars)*

### **Note 18 - Comparative information**

Comparative figures have been reclassified to conform to the current year's presentation.

## AGRICULTURE AND AGRI-FOOD CANADA

### Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting

#### Note to the reader

With the Treasury Board *Policy on Internal Control*, effective April 1, 2009, departments are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their *Statements of Management Responsibility* a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- applicable laws, regulations and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

#### 1. Introduction

This document is attached to Agriculture and Agri-Food Canada's *Statement of Management Responsibility Including Internal Control Over Financial Reporting* for the fiscal-year 2011-2012. As required by the Treasury Board *Policy on Internal Control*, this document provides summary

information on the measures taken by Agriculture and Agri-Food Canada to maintain an effective system of ICFR. In particular, it provides summary information on the assessments conducted by Agriculture and Agri-Food Canada as at March 31, 2012, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the department. This is the third annex produced by this department.

### **1.1 Authority, Mandate and Program Activities**

Detailed information on Agriculture and Agri-Food Canada's authority, mandate and program activities can be found in the Departmental Performance Report and the Report on Plans and Priorities.

### **1.2 Financial Highlights**

Financial information can be found in the financial statements (unaudited) of Agriculture and Agri-Food Canada for fiscal year 2011-2012. Information can also be found in the Public Accounts of Canada.

- Total expenses were \$2.6B, which includes transfer payments of \$1.6B (62%) followed by salaries and employee benefits of \$614.6M (23%). Transfer payments are largely to help agriculture producers to manage business risk.
- Total revenues were \$115.2M, which includes \$50.9M related to revenues earned on behalf of Government and not available to cover departmental expenses. Revenues are primarily comprised of sale of goods and services totaled \$64.3M (56%) followed by Crop Re-insurance fund premiums of \$34.6M (30%).
- Financial assets are made up of the amount due from the Consolidated Revenue Fund \$1.3B (76%) followed by loans receivable \$341.8M (20%) and accounts receivable \$83.1 M (4%).
- Non-financial assets consist primarily of tangible capital assets, which comprise of \$380.4M. The majority of tangible capital assets are buildings, machinery and equipment located at agricultural research centres across Canada.
- Accounts payable and accrued liabilities comprise of \$1.4B (88%) of total liabilities of \$1.6B. Accrued liabilities related to transfer payment programs represent the largest portion of this category. Other liabilities of \$115.6M (7%) consist of amounts held in trust from agricultural producers and provincial administrations under the terms of transfer payment programs to manage business risks.
- The department has a strong regional presence across the country. Due to this decentralization, the finance and accounting functions are also decentralized and research centres and regional offices initiate, approve and/or record a significant portion of the department's operating expenditures. Although the finance and accounting functions are decentralized in various locations, these functions are under the responsibility of a single branch.
- Agriculture and Agri-Food Canada has a comprehensive information systems environment that is critical to its operations and financial reporting which is comprised of an integrated financial system (SAP), a human resource management system (Peoplesoft), and grants and contributions delivery systems. Business processes are standardized across all locations.

### **1.3 Service Arrangements Relevant to Financial Statements**

Agriculture and Agri-Food Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements:

- The Department of Public Works and Government Services centrally administers the payment of salaries, the procurement of goods and services, as well as the provision of accommodations.
- Treasury Board Secretariat provides the department with information used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to Agriculture and Agri-Food Canada.



## **1.4 Material Changes in Fiscal Year**

No significant departmental changes that are relevant to financial statements occurred in 2011-2012.

As described in the accounting policy changes note to the financial statements, Treasury Board Secretariat issued a revised accounting standard regarding the presentation for financial statements that was effective for fiscal year 2011-2012. These changes have resulted in modifications to the presentation of certain items on the financial statements to comply with the revised presentation model.

## **2. Control environment at Agriculture and Agri-Food Canada relative to ICFR**

Agriculture and Agri-Food Canada recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. Agriculture and Agri-Food Canada's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

### **2.1 Key Positions, Roles and Responsibilities**

Below are Agriculture and Agri-Food Canada's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

**Deputy Head** - Agriculture and Agri-Food Canada's Deputy Head, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Head is advised by the Departmental Audit Committee and the Departmental Management Committee.

**Chief Financial Officer (CFO)** - Agriculture and Agri-Food Canada's CFO reports directly to the Deputy Head and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment. Falling under the CFO responsibilities is also the management of the Corporate Risk Profile of Agriculture and Agri-Food Canada.

**Senior Departmental Managers** - Agriculture and Agri-Food Canada's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

**Chief Audit Executive (CAE)** - Agriculture and Agri-Food Canada's CAE reports directly to the Deputy Head and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

**Departmental Audit Committee (DAC)** - The DAC is an advisory committee that provides objective views on the department's risk management, control and governance frameworks. It is comprised of four external members and was established in 2008. The DAC reviews Agriculture and Agri-Food Canada's Corporate Risk Profile and its system of internal control, including internal and external audit reports and the assessment and action plans relating to the system of ICFR.

**Departmental Management Committee (DMC)** - As the Agriculture and Agri-Food Canada's central decision-making body, the DMC reviews, approves and monitors the Corporate Risk Profile and the departmental system of internal controls, including the system of ICFR.

**Horizontal Management Committee (HMC)** – The HMC is chaired by the Associate Deputy Minister and guides horizontal management and provides oversight of human resources, finances, information management and systems, communications and assets, to support current and emerging business needs.

**Policy and Programs Management Committee (PPMC)** - Deputy Minister level committee responsible for guiding the development and implementation of cohesive and comprehensive policies, programs and services, and monitoring of results.

## **2.2 Key measures taken by Agriculture and Agri-Food Canada**

Agriculture and Agri-Food Canada's control environment also includes a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant are:

- Departmental Ethics Office and Code of Ethics which provides information and support to staff on ethical issues;
- Security Guidelines relating to the overall security program including elements of information and personnel security;
- Guidelines for managers, supervisors, and employees for the internal disclosure of wrongdoing;
- Departmental policies tailored to the Department's control environment;
- Regularly updated delegated authorities matrix;
- Training program and communications in core areas of financial management; and
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR.

## **3. Assessment of Agriculture and Agri-Food Canada's System of ICFR**

### **3.1 Assessment approach**

To satisfy the requirements of the *Policy on Internal Control*, the department must maintain an effective system of ICFR with the objective to provide reasonable assurance that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded; and
- applicable laws, regulations and policies are followed.

Over time, this includes conducting assessments of **design** and **operating effectiveness** of the system of ICFR leading to ensuring the **on-going monitoring** and continuous improvement of the departmental system of ICFR.

**Design effectiveness** means to ensure that key control points are identified, documented, in place and that they are aligned with the risks (i.e. controls are balanced with and proportionate to the risks they

aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location as applicable.

**Operating effectiveness** means that the application of key controls has been tested over a defined period and that any required remediation is addressed.

Such testing covers all departmental control levels which include corporate or entity controls, information technology general controls and business cycle controls.

### **3.2 Scope of Agriculture and Agri-Food Canada assessment during fiscal year 2011-2012**

The department has taken measures to assess its system of ICFR by completing design and operating effectiveness testing for the following elements in 2011-2012:

- Business Cycle Controls
  - Financial close and reporting;
  - Budgeting and forecasting;
  - AgriStability;
  - AgriInvest;
  - AgriInsurance;
  - Generic grants and contributions;
  - Loan guarantees;
  - Capital assets;
  - Operating expenditures;
  - Payroll;
  - Revenue;
- Information Technology General Controls
- Entity Level Controls

For each specific element, the Department completed the following steps:

- Gathering information pertaining to processes and locations, risks and controls relevant to ICFR, including appropriate laws, policies, directives and procedure, assessing these elements against the common business processes published by the Office of the Comptroller General;
- Mapping out key processes with the identification and documentation of key risk and control points on the basis of materiality, volumes, complexity, geographic dispersion, susceptibility to losses/frauds, areas subject to audit observations, past history, external attention, and reliance on third-party;
- Conducting design effectiveness testing; and
- Performing operating effective testing.

### **4. Agriculture and Agri-Food Canada's Assessment Results during fiscal year 2011-2012**

As a result of the assessment approach described above, the Department has developed baseline architecture of all key control points by accounts, locations, processes and main IT systems that have been based on and assessed against the Common Financial Management Business Process developed by the Office of the Comptroller General.

In assessing its key controls, the Department focused on completing design effectiveness and operating effectiveness testing of all elements noted in 3.2 above.

#### **4.1 Design and Operating Effectiveness of Key Controls**

Agriculture and Agri-Food Canada dedicated significant resources during fiscal year 2011-2012 to conduct design and operating effectiveness testing of all key business cycle controls that support financial reporting, as well as key IT general controls and entity level controls. Key business cycles were documented based on the TBS Common Financial Management Business Processes and walkthroughs were conducted to confirm the design of controls for each business cycle. Through this process, it was noted that Agriculture and Agri-Food Canada has a number of good controls designed and implemented and Departmental staff and management are aware of the existence of controls and the requirements under the Policy on Internal Control. Nonetheless, Agriculture and Agri-Food Canada has identified some improvement opportunities in the following areas:

- **Business Cycle Controls**
  - Implement a formal monitoring process for Journal Entries;
  - Undertake a review of user access requirements to correct situations where user access privileges may be excessive;
  - In a few of sub-processes, improve the department's documentation of the formal review and approval of certain key elements to ensure that evidence of these reviews exists;
  - Develop additional procedures to ensure assurance over data supporting calculations that is provided by other entities external to the Department, such as Canada Revenue Agency and the Provinces;
  - Improve procedures to follow-up on findings identified through compliance visits or audits of administrators of loan guarantee programs; and
  - Enhance the documentation related to the review of completeness and the timely processing of capital asset records.
- **Information Technology General Controls**
  - Review of system access privileges to financial systems to ensure system access is appropriately restricted, regularly reviewed and that segregation of duties exists between system development and production; and
  - Enhance documentation and approvals for granting logical system access;
- **Entity Level Controls**
  - Undertake a formal departmental fraud-risk assessment as part of its risk assessment process.

Where feasible, specific corrective actions were implemented shortly after the necessary adjustments were identified. Otherwise, management action plans either have been or are currently being developed to fully address the control weaknesses within a reasonable timeframe. A follow-up will be performed on each of the remediation measures in 2012-2013 to ensure that they are being implemented as planned.



## **5. Agriculture and Agri-Food Canada's Action Plan**

### **5.1 Progress during fiscal year 2011-2012**

To ensure the **accuracy of departmental financial statements and Public Accounts**, the department had to address new priorities and consequently made progress during 2011-2012 in the following areas:

- Completed. The department has implemented a new valuation methodology for the allowance related to loan guarantees in 2011-2012 addressing concerns raised by the Office of the Auditor General during the annual Public Accounts Audit. Tests have been completed to validate the allowance and related controls.
- Completed. In order to improve the accuracy and controls related to capital assets held by the Department, testing of capital asset inventories held at responsibility centers was completed.

The department exceeded its commitments for 2011-2012 from the 2010-2011 action plan by advancing completion of activities as follows:

- Completed. The department has completed documentation and design and effectiveness testing of all departmental business cycle controls supporting ICFR has been completed in 2011-12, one full year ahead of the planned completion in 2012-2013.
- Completed. As at March 31, 2012, the department has completed documentation and testing of IT General Controls for its key financial systems (SAP, Peoplesoft, Business Risk Management System, and other systems supporting the delivery of grants and contributions)

### **5.2 Action Plan for the Next Fiscal Year and Future Years**

Under the *Policy on Internal Control*, departments need be able to maintain an effective system of ICFR with the objectives to provide reasonable assurances that a) transactions are appropriately authorized, b) financial records are properly maintained, c) assets are safeguarded and d) applicable laws, regulations and policies are followed.

Building on progress to date, Agriculture and Agri-Food Canada is positioned to take corrective measures in 2012-2013 to address areas for improvement identified during the initial documentation, design and effectiveness testing of its business cycle controls, IT general controls, and entity level controls completed during 2011-2012. Beginning in 2012-2013, the department will adopt an ongoing risk-based monitoring approach to support testing of key ICFR based on the following cycle:

Activity		Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Year 4 2015/16
Ongoing monitoring					
High Risk (Annual)	Financial Close & Reporting	X	X	X	X
	Budgeting and Forecasting	X	X	X	X
	New Transfer Payment Programs	X	X	X	X
	IT Security	X	X	X	X
	IT Change Management	X	X	X	X
Medium Risk (2 year cycle)	AgriStability		X		X
	AgriInvest		X		X
	AgriInsurance		X		X
	Generic Grants and Contributions		X		X
	Capital Assets	X		X	
	Loan Guarantees	X		X	
	IT Operations	X		X	
Low Risk (3 year cycle)	Operating Expenditures	X			X
	Payroll			X	
	Revenues		X		
	IT Backups	X			
	Entity Level Controls			X	

By the end of fiscal year 2012-2013, Agriculture and Agri-Food Canada also plans to complete the following:

- Identify and implement corrective actions to address required improvements identified during design and effectiveness testing conducted in 2011-2012; and
- Enhance the documentation of internal controls related to Agriculture and Agri-Food Canada's role as the administrator of the shared instance of SAP that is used by multiple government departments and agencies.